



# NASUCA

96-45

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## National Association of State Utility Consumer Advocates

1133 15th Street, N.W., Suite 550 Washington, D.C. 20005  
Phone (202) 727-3908 Fax (202) 727-3911 E-Mail nasuca@nasuca.org

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DEBRA BERLYN

Office of the Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

Re: In the Matter of Amendment of Federal-State  
Joint Board on Universal Service  
CC Docket No. 95-115

TO THE HONORABLE COMMISSION:

Enclosed please find an original and nine copies of the  
comments of the National Association of State Utility Consumer  
Advocates (NASUCA) concerning the Federal-State Joint Board on  
Universal Service for filing with the Commission in the above-  
referenced matter.

Counsel in this matter is:

Robert F. Manifold  
Assistant Attorney General  
Public Counsel Section  
Office of the Attorney General  
900 4th Avenue, Suite 2000  
Seattle, WA 98164

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Sincerely,

Mary Gubisch  
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**BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C.**

DOCKET FILE COPY ORIGINAL

**In the Matter Of:**

**Federal-State Joint Board on  
Universal Service**

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**CC Docket No. 96-45**

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**COMMENTS OF THE  
NATIONAL ASSOCIATION OF STATE  
UTILITY CONSUMER ADVOCATES  
(NASUCA)**

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**By their counsel:**

**Robert F. Manifold  
Assistant Attorney General  
Public Counsel Section  
Office of Attorney General  
900 4th Avenue, Suite 2000  
Seattle, Washington 98164  
(206) 464-6595**

**DATED: April 12, 1996**

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## SUMMARY

NASUCA believes that Universal Service should continue to be a cornerstone of United States telecommunications policy. These Comments address implementing the goals and principles of the Telecommunications Act of 1996. When applying the principle of just, reasonable and affordable prices, affordability is a key issue. One test of affordability is the level of telephone service penetration. If telephone service penetration declines, this could indicate that basic service may be declining in affordability. The Commission should strive to increase subscribership among all residential customer segments and coordinate its efforts with those of the states and these Comments offer suggestions in this regard.

The introduction of local competition and new universal service protections should not produce less affordable rates. The Universal Service principle of charging rural customers “reasonably comparable” rates for “similar services” provided in urban areas reduces the import of proposals for rate increases to rural areas. Rural customers have smaller calling areas than urban customers. Many state commissions have addressed this dissimilarity in service by establishing lower rates for rural areas.

In designing a Universal Service Fund to provide support for basic service among rural, insular and high cost areas and low income customers, the Commission should carefully scrutinize incumbent LEC claims about the extent of basic service cross-subsidy and the resulting associated need for large amounts of funding to support universal service. A Universal Service Fund should be sized using a proxy cost model that calculates forward-looking cost estimates based on the most efficient technology. All of the data, assumptions and models used to develop cost estimates should be publicly available and verifiable. Universal Service should not be funded through new end user surcharges or increases to existing end user surcharges.

**BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C.**

In the Matter Of:	:	
	:	
Federal-State Joint Board on	:	CC Docket No. 96-45
Universal Service	:	
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**COMMENTS OF THE  
NATIONAL ASSOCIATION OF STATE  
UTILITY CONSUMER ADVOCATES  
(NASUCA)**

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**INTRODUCTION**

On March 8, 1996, the Federal Communications Commission ("FCC" or "Commission") released a Notice of Proposed Rulemaking and Order Establishing Joint Board ("Notice") in this matter. In this Notice, the Commission solicited comments pertaining to proposed FCC action to comply with congressional directives set out in Section 254 of the Communications Act of 1934, as added by the Telecommunications Act of 1996 (1996 Act). Notice at ¶ 1.

This rulemaking has three purposes: (1) define the services that will be supported by Federal universal service support mechanisms; (2) define those support mechanisms; and (3) recommend changes to the Commission's regulations necessary to implement the directives of the 1996 Act.

The National Association of State Utility Consumer Advocates ("NASUCA") submits these comments. NASUCA is a national association of 41 offices in 38 states and the District of Columbia authorized by state law to represent utility consumers.

NASUCA members have been active participants at the state and federal level in the creation of policies designed to foster universal service.

## **PRESENTATION OF COMMENTS**

The following discussion represents the Comments of the National Association of State Utility Consumer Advocates (NASUCA). The NASUCA Comments will cross reference and parallel the organization and headings contained within the Notice. However, where NASUCA does not wish to present any discussion concerning a topic addressed in a heading, the NASUCA Comments may omit the heading entirely. Where the NASUCA Comments use a heading not provided in the Notice, the Comments will present that heading in underline and italic form.

### **I. INTRODUCTION AND BACKGROUND**

Universal service has been a cornerstone of telecommunications policy in the United States since the passage of the Communications Act of 1934. The decision by Congress to make universal service a priority reflected the importance of telecommunications service to society and to the economy. In 1934, 65 percent of American households had telephones. Since the passage of the 1934 Act, the percentage of American households with telephones has gradually increased to over 93 percent.<sup>1</sup> While the overall level of subscribership has increased during the past 62 years, this seemingly high percentage of households with telephone service is deceiving. Statistics compiled by the FCC and various states clearly show that telephone penetration declines as income drops. Further, telephone penetration is

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<sup>1</sup> "Telephone Subscribership in the United States," Federal Communications Commission, Industry Analysis Division, Common Carrier Bureau, August 1995, p. 6. Disturbingly, the data for 1993 and 1994 show an actual decline in telephone subscriber ship, from 94.2% to 93.9 %.

markedly lower among Blacks, Hispanics and Native Americans than among other ethnic groups. Clearly, this situation must improve.

The 1996 Act delineates several principles that should underlie the policies developed by the Commission and Joint Board for the preservation and enhancement of universal service. These Comments address the following issues, in relation to the principles spelled out in the 1996 Act: 1) Just and Reasonable Rates, Affordability and Subscribership; 2) Quality Service; 3) Additional Principles that should Guide the Commission's Universal Service efforts; 4) Support for Rural, Insular and High Cost Areas and Low Income Customers; 5) Proxy Cost Models; and 6) End User Charges.

In addition, we refer the Commission to the October 6, 1995 Comments filed by NASUCA in response to the Commission's Notice of Proposed Rulemaking and Notice of Inquiry in Docket 80-286, attached to this filing. In those Comments we address proposed changes to the current methods used to provide interstate high cost telephone assistance to local exchange carriers.

## **II. GOALS AND PRINCIPLES OF UNIVERSAL SERVICE SUPPORT MECHANISMS**

Para. 3-4 The Notice states that the first universal service principle set forth in the 1996 Act is that "[q]uality services should be available at just, reasonable and affordable rates." Notice at ¶ 3. We address the issue of just, reasonable and affordable rates, and that of quality service. Further, we comment on implementing the third universal service principle stating, in part, that rural customers should have access to telecommunications service at rates that are "reasonably comparable to rates charged for similar services in urban areas." *Id.* at ¶ 3.

*For Rates to Be "Just and Reasonable" they Must Be Affordable*

*Telephone Penetration is an Indicator of Affordability*

A key measure of whether rates are "just and reasonable" is whether they are affordable. As discussed in the introduction to these comments, statistics compiled by the FCC clearly show telephone penetration varies significantly with income and ethnicity. Even with several federal and state programs targeted toward low income customers, many Americans still do not have telephone service.

As the Commission manages the introduction of local telephone service competition, it should be mindful of the need to ensure that basic telephone service is affordable. The Notice requests proposed standards for evaluating affordability. *Id.* at ¶ 4. While we do not pretend to have developed a comprehensive evaluation procedure, telephone penetration statistics are one tool that can be used to judge telephone service affordability. For example, a decline in telephone penetration, such as that experienced in the 1993-to-1994 time frame, should be viewed as an indication that basic service may be declining in affordability.

*The Introduction of Local Competition and New Universal Service Protections Should Not Produce Less Affordable Rates*

In managing the introduction of local service competition, the Commission should bear in mind that targeted discounts for low income customers are generally tied to the tariffed rates for basic service and service installation. If competition is introduced under circumstances that permit incumbent telephone companies to raise rates for customers with the least competitive choice -- i.e., basic service customers -- subscribership will decline.

Furthermore, if local rates are increased by default through an increase in the End User Common Line charge (EUCL) or the introduction of an end user charge to contribute to a carrier universal service fund, telephone service will be less affordable to those Americans on low incomes who are ineligible for lifeline assistance. Incumbent LECs should not be insulated from competitive losses. Competing carriers are required by the 1996 Act to fund universal service. (§254(d)) No customer should have to forgo subscribing to telephone service as a result of higher rates resulting from Commission actions intended to safeguard and promote universal service in an era of competition.

*FCC Action to Increase Subscribership Should Complement, not Preempt, Similar Efforts Undertaken by States*

The Commission should do everything in its power to increase subscribership. As with service quality, the Commission should coordinate its efforts as much as possible with state commissions. Some states have adopted comprehensive universal service programs, with specific penetration targets that are higher than the national average, information programs and significant discounts in order to expand subscribership. Action taken by the Commission should complement, not preempt, innovative state programs. At the same time, the Commission should take whatever action that is necessary to reverse the recent decline in subscribership and to correct the discrepancies in telephone penetration among different segments of the population.

*Suggestions for Increasing Subscribership Among Low-Income Customers*

NASUCA offers the following suggestions for Commission action to increase telephone subscribership among low-income customers.

- In a market where competition is authorized, the Commission should consider permitting all eligible certificated carriers to participate in federal telephone assistance programs.

- It is imperative that eligible customers receive adequate information about targeted assistance programs offered by the Commission. The Commission should require all basic service providers to provide customers with information about these services. This information should be contained in all white pages directories and provided in bill inserts. The Commission could prepare a standard information sheet about its Link-up America and Lifeline programs, translate the information into languages other than English (as necessary) and provide the information to telecommunications carriers. This would help ensure that customers receive accurate information, and it would reduce the expense and difficulty to telecommunications carriers of producing such information.

- The Commission should consider prohibiting disconnection of service for non-payment of interstate toll charges and charges for other non-basic services (e.g., "900" number information services and cellular calls). A large deposit should not be required to reconnect service following disconnection for non-payment of non-basic service charges, consistent with the concept of unbundling.

- The Commission should consider requiring carriers to provide toll restriction for interstate toll. This restrictive service should be offered free of charge or at a substantial discount.

- The Commission should consider self-certification for federal lifeline assistance programs.<sup>2</sup>

*The Principle of Charging Rural Customers "Reasonably Comparable" Rates for "Similar Services" Provided in Urban Areas Reduces the Import of Proposals for Geographic Rate Deaveraging*

The 1996 Act adopts the principle that rates charged to rural customers should be "reasonably comparable" to rates charged for "similar services" provided in urban areas. (§254 (b)(3)) *Id.* at ¶ 3. This principle should reduce the import of proposals for geographic rate deaveraging that would establish higher basic service prices for customers in areas deemed to be high cost areas. Further, rates should not be deemed "reasonable" if they are set at a level that substantially restricts or diminishes subscribership. The establishment of a carrier funded universal service fund, as contemplated by the Act, should reduce the likelihood that competition will lead to rate increases for customers who have little or no competitive choice, such as customers in rural areas where local competition will emerge slowly (if at all).

In considering how to apply this principle to basic exchange service, the Commission should bear in mind that the Act considers the concept of "reasonably comparable" rates to be inextricably related to the concept of "similar services." Service provided to rural customers is dissimilar from service provided to urban and suburban subscribers because local calling options are restricted. Customers in rural areas typically have much smaller local calling areas than customers in urban

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<sup>2</sup> Consumer representatives, Pacific Bell and major competitors in California agree that self-certification works well for California's lifeline program and oppose replacing self-certification with a type of mandatory certification similar to that required for federal lifeline assistance programs. Pacific Bell recently opposed instituting mandatory certification on the grounds that it could adversely affect California's ability to achieve its goal of 95 percent telephone penetration for all customer groups. See, Before the Public Utilities Commission of the State of California, Rulemaking on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643, R. 95-01-020/1.95-01-021, "Comments of Pacific Bell to Proposed Universal Service Rules," p. 18-19; and "Opening Comments of the California Telecommunications Coalition," p. 41.

and suburban areas. Many states have addressed this dissimilarity in service by establishing lower rates for customers in less populated areas.

*Quality Service is a Customer Right*

The Notice requests comment on how the Commission can address the concept of "quality services." Id. at ¶ 4. Specifically, the Notice asks for comment on how the Commission can assess whether quality services are being made available and the usefulness of performance-based measurements to evaluate success in achieving the Act's objectives.

With respect to service quality, two factors should be paramount in the Commission's deliberations. First, customers have a right to high quality service. Second, permitting competition in a given telecommunications market does not automatically result in the provision of service that is of high quality in all aspects that are important to customers.

In theory, competition can provide incentives for telecommunications services to be provided more efficiently. While the concept of efficiency should embody the promise of high quality service, this is often not the case. For example, customers of local exchange companies (LECs) operating under price cap formulas intended to reward companies for increased efficiency, have found that "efficiency" does not automatically mean good quality service. In some states, incentive regulation has prompted LECs to maximize revenue by cutting back on training programs and discarding experienced staff. This has led to situations where customers contacting service representatives were given incorrect information about services because the service representatives were not adequately trained about the services. Many states still experience serious service quality problems such as inferior transmission quality, held orders, inadequate response to service problems,

and poor customer service. In many states, the quality of installation, repair, and maintenance has declined as experienced staff have left.

Commission actions to ensure quality service should be coordinated with similar efforts undertaken by state regulators. Quality service is and should be a national mandate. However, § 253 (b) of the 1996 Act allows states to impose, on a competitively neutral basis and consistent with §254, requirements necessary to, inter alia, ensure the continued quality of telecommunications services and safeguard the rights of consumers. It is important that state commissions have the flexibility to devise measures that are responsive to the particular circumstances in their jurisdiction. Many states monitor service quality by tracking held orders, trouble reports and percentage of customer service and repair calls answered in a specific time frame. The Commission and the Joint Board should take steps to ensure that the Commission is fully informed of service-quality requirements already in effect at the state level. Such information would indicate the extent and nature of existing service quality initiatives and identify any gaps in quality of service monitoring. It would also allow the Commission to determine whether service quality measurements employed by various states could be adapted for use by the FCC.

Additionally, the Commission should recognize that the concept of quality service should include a telephone customer's right to receive prompt and competent response to repair problems and accurate information from telecommunications service providers. This principle should apply to all providers of telecommunications service, interstate and intrastate, with states having discretion over how the principle should be put into practice.

From the perspective of customers, it is important to address the issue of accurate information in at least two respects. First, all telecommunications

carriers should be required to provide written information that will permit customers to clearly understand the service options that are available to them. Accurate customer information is crucial to the functioning of a competitive market. Competitive markets evolve in response to customer demand. Customer demand should be driven by choices made on the basis of accurate information and clear understanding of what services, at given prices, best meet customer needs. For local telecommunications competition to function effectively, customers must be able to make informed comparisons between competing services. Further, telecommunications carriers should be required to ensure that customers who contact a company by telephone are provided accurate information by company employees. If enforced, this would deter telecommunications carriers from sacrificing customer service quality as a means of improving profit margins. Failure to comply with this requirement could be detected by periodic test calls to company service representatives.

*Additional Principles that Should Guide Universal Service Policy*

Para. 8        The Notice seeks comment on whether concerns for low income consumers and those in rural, insular or high cost areas can or should be articulated as additional universal service principles pursuant to §254 (b) (7). In this regard, we believe the Commission should adopt the following additional principles.

- All customers should have the opportunity to benefit from changes in the telecommunications marketplace.
  
- No customer should experience a deterioration or diminution of service or, as a general matter, higher rates as a result of Commission action to safeguard and protect universal service in a competitive environment.

- Carriers, not captive customers, should bear financial responsibility for business decisions in a competitive marketplace.
- Universal Service should not be funded through end user surcharges.
- Customers should have the right to choose the service that best meets their needs. No customer should be forced to purchase bundled service offerings. The Commission should not permit pricing schemes that force customers to receive basic service as part of a bundled offering.

### **III. SUPPORT FOR RURAL, INSULAR, AND HIGH-COST AREAS AND LOW-INCOME CUSTOMERS**

#### *Universal Service Support is Changing in Anticipation of Local Competition*

The Commission and many states have implemented a number of policies and programs designed to foster universal service. New proposals are being developed to address universal service in a competitive market.

Generally, universal service support has taken two forms. First, specific programs have been developed to provide support for low income telephone subscribers. These programs typically have involved providing telephone service at a discounted rate. The Commission has addressed the issue of how to improve telephone subscribership in CC Docket 95-115.<sup>3</sup>

A second type of universal service support exists in the form of programs to assist telephone companies serving areas generally considered to be "high cost" areas, primarily independent telephone companies serving rural exchanges. High cost funds have involved pooling and distributing revenue from telecommunications companies. In July 1995, the FCC solicited comments regarding

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<sup>3</sup>See Before the Federal Communications Commission, In the Matter of Amendment of the Commission's Rules and Policies to Increase Subscribership and Usage of the Public Switched Network for Basic Telephone Service, CC Docket No. 95-115, "Response of the State Consumer Advocates of Delaware, Florida, Maine and Missouri (SCA) to FCC Notice of Proposed Rulemaking," September 26, 1995.

a number of proposed changes to the current methods used to provide interstate high cost assistance to local exchange carriers, under CC Docket No. 80-286.<sup>4</sup> In this Notice, the Commission requested comments regarding the establishment of a Universal Service Fund to support service in high cost areas.

A third type of universal service support mechanism is now on the drawing board in several states: a Universal Service Fund that would support service to all customers whose cost of basic service is deemed to be greater than the revenues recovered through rates, and other sources of revenue associated with basic service (e.g., vertical services and yellow pages revenue). This type of fund differs from the traditional high-cost fund in that large incumbent LECs -- not small, independent telephone companies -- would be the primary recipients of revenue.

Large LECs argue that competition will erode subsidies embedded in current rate structures and force increases in the rates for basic telephone service. States such as California have taken steps to establish universal service funds as a means of ensuring that prices for basic service do not increase as a result of success in introducing local competition. If the experiences in California and other states that have begun to tackle this issue hold true, LECs in most states will argue that the majority of residential customers are being subsidized, but their claims will not hold up to scrutiny. If forward looking costs are accurately estimated and joint costs are fairly apportioned, the need for universal service support will be lessened.

A Universal Service Fund should reduce or eliminate the need for increases in basic service rates, and the rationale for geographic rate deaveraging, because any difference between the cost and price of service would be covered by the

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<sup>4</sup> See Before the Federal Communications Commission. In the Matter of Amendment of Part 36 of The Commission's Rules and Establishment of a Joint Board, CC Docket 80-286, "Comments of the National Association of State Utility Consumer Advocates (NASUCA)," ("NASUCA Comments"), October 6, 1995. See also, Reply Comments of the Office of the People's Counsel For the District of Columbia in FCC Docket No. 95-115, October 27, 1995.

ability of an eligible telecommunications service provider to draw from the fund. For example, a proposal developed by consumer representatives and submitted to the universal service proceeding in California would fund universal service for residential service through a surcharge on all carriers providing intrastate service. All carriers providing basic service in high cost areas, in compliance with the California commission's rules, would be eligible to draw from the fund. While LECs may decry the alleged loss of internal subsidies that support universal service, the parties that presented this proposal argue that with a Universal Service Fund, the LECs would be made whole for the legitimate costs of providing service, with the total cost eligible for recovery being determined by the state commissions based on cost studies and cost proxy model estimates. Further, since the LECs have the largest number of customers, they would be the largest recipients of funding. Thus, with this type of Universal Service Fund, the LECs should have no justification for raising basic exchange rates for any customer, or for geographic rate deaveraging.

*The Commission should be Skeptical of LEC Claims that Basic Exchange Service is subsidized*

In establishing a Universal Service Fund, one of the most critical tasks confronting the Commission will be to determine the extent of universal service funding requirements. As a general matter, the notion that basic telephone service is subsidized is a myth, perpetuated by the desire of telephone companies to maximize revenue by attempting to justify unnecessarily high rates for those services and customers who have little or no competitive choice. Large LECs, such as the Regional Bell Operating Companies (RBOCs) and GTE, regularly produce cost studies purporting to show that basic exchange service is subsidized. Many parties who have investigated these claims in proceedings before state commissions have demonstrated that basic local service is not subsidized.

Analysis of telephone company cost studies in states such as Maryland, Pennsylvania, Florida, New Hampshire, Maine, Washington, Indiana, Iowa and California has shown that the LECs' cost studies show inflated costs for basic exchange service. Typically, LEC cost studies improperly assume that the entire cost of the loop is a cost of local service, an assumption that, if accepted, would be contrary to §254 (k) of the Act. This assumption serves to make it appear as though residential basic service is not covering its costs. Moreover, LEC cost studies involve substantial discretion on the part of telephone company employees who make critical judgments about assumptions underlying the studies. For example, a recent analysis of cost studies in California unearthed the fact that the reported cost of basic voice-grade telephone service actually was based on the costs of designing the local exchange to provide narrowband data and broadband services and that the study grossly overstated the cost of rural service.

If the experience in states such as California holds true, we expect that most (if not all) large LECs will claim that billions of dollars will be required for universal service support. Such claims must be carefully scrutinized and ultimately rejected. The Commission should recognize that it is in the interest of LECs to inflate the cost estimates of universal service fund requirements because LECs will be the largest recipients of universal service support. If they succeed, customers will be harmed and the Act's objective of permitting local competition will be hindered because every competitor and, ultimately, every customer will be forced to pay these inflated costs.

The Commission should not accept LEC assertions about subsidy requirements at face value. Cost estimates should be subject to careful analysis and

interested parties should have the opportunity to conduct discovery necessary to understand how such estimates are derived.

*Universal Service Should Not Be Funded Through End-User Surcharges*

The Commission should reject any proposal to structure a universal service fund that is based on a Commission-imposed end-user surcharge. It is a requirement of law that the Universal Service Fund support must be funded by telecommunications carriers. §254 (d) states:

Every Telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the commission to preserve and advance universal service.

At §254 (f), the Act applies the carrier funding requirement to universal service funds established by the states.

We wholeheartedly support the principle that universal service should not be funded through end-user surcharges. All carriers benefit from the ubiquity of telecommunications and from the ability of most Americans to receive high quality, affordable telephone service. Accordingly, if the Commission establishes a universal service fund, revenues should accrue through charges assessed to telecommunications carriers. End-user charges amount to rate increases for customers who have no means of economizing to avoid the charge and minimize expenses. For customers without choice, the additional expense would pose an undue hardship on the poor – those customers who are struggling to make ends meet, but whose incomes exceed established thresholds for lifeline service eligibility.

Carrier funding offers significant advantages. Since all carriers must contribute to the fund, all carriers have an interest in ensuring that it is established

and operates in an efficient and effective manner. Furthermore, many of the carriers with interstate revenue also will be attempting to compete in the local exchange market. Carrier funding would provide them with an incentive to lower their costs of providing local service, because this would reduce the required subsidy and, hence, their contributions to a universal service fund. Furthermore, a fund based on carrier contributions would provide greater incentive for competitors to serve high cost areas. Eligible carriers that serve in high cost areas would be eligible to draw from the fund. Thus, a carrier that provided service in a high cost area could reduce its total contribution to the fund because that contribution would be offset to some degree by the revenue it received in the form of universal service support.

*Federal and State Coordination is Important to Ensure Proper Operation of Universal Service Funds*

The 1996 Act provides for universal service support to be implemented by both the Commission and the states. The Act states that when regulations implementing §254 (e) take effect, "only an eligible telecommunications carrier shall be eligible to receive specific Federal universal service support." §254(f) states:

A State may adopt regulations not inconsistent with the Commission's rules to preserve and advance universal service. Every telecommunications carrier that provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, in a manner determined by the state to the preservation and advancement of universal service in that state.

States are permitted, not required, to establish universal service support mechanisms. If the Commission decides to provide universal service support through a fund of the type contemplated in CC Docket 80-286, care should be taken to ensure that universal service funds established by the Commission and the states do not conflict.

One conceivable situation is that some states opt to establish a fund comprised of carrier contributions based on intrastate revenues, while others do not establish such a support mechanism. Rules may need to be crafted to determine the extent to which carriers in states with a universal service fund would be permitted to draw from the federal and the state fund. There may be a need for some reconciliation between the size of the designated subsidy in each jurisdiction, which could differ if subsidy requirements were calculated differently. Absent such reconciliation, a LEC could draw from both funds and receive a sum greater or lesser than the actual cost of providing service.

## **B. Support for Rural, Insular and High Cost Areas**

### **1. What Services to Support**

#### **A Federal Universal Service Fund Should be used to Support Basic Residential Service**

Para. 17. To receive universal service fund support targeted to a defined service area, such as a LEC wire center, any carrier should offer basic local telephone service on an unbundled basis to all residential customers in that area. We recommend that, at a minimum, basic local exchange service should include:

- A single party voice-grade access line (including reasonable usage) with touch-tone dialing;
- A "white pages" directory listing;
- A current telephone directory;
- Access to operator services;
- Directory assistance, including any free allowances that are currently in place;
- Access to emergency services;

- Telecommunications Relay Service;
- Such blocking as is offered under tariff by the incumbent LEC; and
- Equal access to long distance carriers.

Furthermore, this service should meet or exceed all applicable standards of service quality and customer satisfaction established for the defined area.

## **2. How to Implement**

### **a. How to Determine "Affordable" and "Reasonably Comparable"**

Para. 26 The Notice requests comment on whether universal service support should be based on achieving specific end-user prices. For incumbents, the universal service fund should ensure that rates are capped at or near fair and reasonable existing tariffed levels, or reduced as necessary to achieve the universal service requirements of the Act. Overall, competition should decrease, not increase, prices. All customers should benefit from the introduction of competition, to the greatest extent possible. Local competition will be slow to emerge however, for most residential and small business customers, particularly those in rural areas. In the meantime, incumbent LECs will have a strong incentive to argue for permission to increase rates for customers facing little or no competition. Monopoly LECs should not be able to use the prospect local competition as a vehicle to gouge captive customers. The introduction of a universal service fund should reduce or remove the need to increase monopoly prices in response to the introduction of local competition where it exists, and proper allocation of costs could justify rate decreases where necessary to advance universal service.

**b. How to Calculate the Support**

**The Commission Should Adopt a Proxy Cost Model that Calculates Forward Looking, Verifiable Cost Estimates**

Para. 31-32            For the reasons discussed in our October 6, 1995 Comments in CC Docket 80-286, we prefer determining the size of a universal service fund based on a verifiable proxy cost model, rather than telephone company cost studies.<sup>5</sup> The Notice requests comment regarding the use of the Benchmark Cost Model, developed and presented to the Commission by a consortium of LECs and interexchange carriers (the Joint Sponsors) . *Id.* at ¶ 31. The Notice also requests comments on a model, provided to the Commission in an ex parte contact by Pacific Telesis, that incorporates data showing the actual location of residential and business customers. *Id.* at ¶ 33. We address the merits of these proxy cost models in light of the principles that we believe should guide the Commission's selection of a proxy cost model.

A proxy cost model should not reflect embedded costs. Cost estimates should be forward looking, such as those produced by a theoretical engineering model. The proxy cost model should be transparent – all of the data and assumptions should be publicly available and verifiable. The calculations employed should be clearly explained. Any models used to develop data used in a proxy cost model should be public and parties should have the opportunity to work with the model to adjust underlying assumptions and clearly understand how study results are derived. The reviewer of proxy cost results should be able to trace the origins of numbers presented in summary form. The Commission should not adopt proxy cost results until they have been thoroughly tested by Commission staff and interested parties.

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<sup>5</sup> NASUCA Comments, p. 8-9.

Para. 32 We agree with the suggestion that a proxy cost model should incorporate all feasible technologies, so as to be "technology neutral." The proxy cost model should calculate the "going forward" costs of service, utilizing the most efficient technology. For the Commission to determine if, in fact, a proxy model is truly "technology neutral", the Commission and interested parties must be able to examine the assumptions, underlying data and the processes by which the data are manipulated to produce study results. This includes a description of what technological alternatives were studied and all assumptions about the efficiency of deploying a particular technology. Otherwise, the Commission has no way of assessing whether the model is, in fact, "technology neutral" or of assessing the reasonableness of model assumptions.

Para. 33 The proxy cost model proposed by Pacific Telesis relies on proprietary models and incorporates confidential information from cost studies. Parties to the California Universal Service proceeding who have studied the model intently are as yet unable to fully determine how the cost estimates were derived. What is clear from their examination is that the Telesis model has been cross pollinated with assumptions and data from Pacific Bell Cost Studies that serve to grossly overstate the costs of basic exchange service and improperly inflate the costs of rural service.<sup>6</sup> It would be difficult, if not impossible, for the Commission and interested parties to confirm that the Telesis model produced proxy cost estimates that comply with costing principles acceptable to the Commission or whether the model is

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<sup>6</sup> Before the Public Utilities Commission of the State of California. Rulemaking on the Commission's Own Motion to Govern Open Access to Bottleneck Services and Establish a Framework for Network Architecture Development of Dominant Carrier Networks (R.93-04-003/I.93-04-002), "Comments of the California Telecommunications Coalition on the Phase I. and Phase II. Cost Studies Submitted by Pacific Bell and GTE California, Inc." Toward Utility Rate Normalization, a NASUCA Associate Member, is a member of the California Telecommunications Coalition and contributed to these Comments. The Comments provided over 100 pages of detailed analysis demonstrating serious problems with Pacific's cost studies and, by association, their proxy model. The California commission held a further workshop to examine the Telesis proxy model on April 4. Testimony on the merits of proposed proxy models is due to be filed April 17, 1995.